SCS Agency
Franchise Tax Board

ANALYSIS OF AMENDED BILL

Author: Haynes | Analyst: Jeani Brent | Bill Number: SCA 25

Related Bills: None | Telephone: 845-3410 | Amended Date: 04/01/98

Attorney: Doug Bramhall | Sponsor: ______

SUBJECT: State Agency Budget Reduction

_____ DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended _________.

_____ AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

_____ AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended _________.

_____ FURTHER AMENDMENTS NECESSARY.

_____ DEPARTMENT POSITION CHANGED TO _________________________.

_____ REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED/AMENDED ____________ STILL APPLIES.

__X__ OTHER - See comments below.

SUMMARY OF BILL

This constitutional amendment would require that the state budget for the 1999/2000 fiscal year reduce state agency expenditures 10% from the prior fiscal year.

SUMMARY OF AMENDMENT

The April 1, 1998, amendments replaced the constitutional amendment's provisions as introduced with the provisions discussed in this analysis. The constitutional amendment as introduced would have required that every annual state budget reduce state agency expenditures one percent from the prior fiscal year, unless higher expenditures are approved by a three-fourths vote of the Legislature.

EFFECTIVE DATE

This constitutional amendment must be voted on at the next election following its approval by the Legislature (which would be November 3, 1998). If approved by the voters, this constitutional amendment would take effect on the day after the election.

DEPARTMENTS THAT MAY BE AFFECTED:

____ STATE MANDATE ____ GOVERNOR'S APPOINTMENT

Board Position:	Agency Secretary Position:	GOVERNOR'S OFFICE USE
____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR ____X____ PENDING	____ S ____ O ____ SA ____ OUA ____ N ____ NP ____ NA ____ NAR DEFER TO ____________	Position Approved ____ Position Disapproved ____ Position Noted ____
Department/Legislative Director Date Gerald H. Goldberg 5/21/98	Agency Secretary Date	By: Date:

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SPECIFIC FINDINGS

The existing California Constitution requires the Governor to submit to the Legislature within the first 10 days of each calendar year, a proposed budget for the upcoming fiscal year. The Governor's budget must include recommended state expenditures, estimated revenues, and, to the extent that proposed expenditures exceed proposed revenues, recommended additional revenue sources. The Governor may require state agencies to provide any information necessary to prepare the budget. The budget must be accompanied by a budget bill, which must be passed by a two-thirds vote of the Legislature by June 15 of each year. The State Constitution provides that the Legislature shall not send to the Governor any bill appropriating funds (except certain necessary appropriations) until the budget bill has been enacted. In addition, the State Constitution allows the Legislature to control the submission, approval, and enforcement of budgets and the filing of claims for all state agencies.

Under the existing Government Code, every state agency must submit to the Department of Finance (DOF) a budget showing all proposed expenditures and estimated revenues for the ensuing fiscal year. Each of these budgets also must show allotments of appropriations or other funds available for the fiscal year. Anytime before the enactment of the budget act, the DOF may amend a state agency budget. During the fiscal year, state agencies may request the DOF to make transfers between that agency's budget allotments.

Under the existing Government Code, the budget required by the State Constitution to be submitted by the Governor must include a complete plan and itemized statement of all proposed expenditures of the state provided by existing law or recommended by the Governor or any state agency and all estimated revenues for the ensuing fiscal year together with a comparison of each item of expenditure and revenue with the actual expenditures and revenues for the last completed fiscal year, the estimated revenues and expenditures for the existing fiscal year, and the budgeted revenue and expenditures for the next fiscal year.

The existing Government Code provides that if after the budget act is enacted estimates show that expenditures will exceed revenues, expenditures should be reduced or revenues should be increased, or both, to ensure that actual expenditures do not exceed actual revenues for that fiscal year.

Under existing law, the Franchise Tax Board (FTB) administers the Personal Income Tax and Bank and Corporation Tax Laws, which includes taking any collection action necessary to gain compliance with these laws. Additionally, it is responsible for collecting as though they are delinquent final personal income taxes:

- child support delinquencies and court-ordered debts that are cases enforceable by the counties, district attorneys and courts, respectively.

- vehicle registration delinquencies that are debts enforceable by the Department of Motor Vehicles.

- student loan delinquencies that are unpaid loans enforceable by the Student Aid Commission.

- delinquent Labor Code assessments enforceable by the Department of Industrial Relations.

- court-ordered debts enforceable by superior, municipal, or justice courts of the state.

Under existing law, the non-tax delinquencies that FTB collects arise under laws other than those administered by FTB. In general, the enacting legislation gives a governmental agency the authority and responsibility to administer the law under which the debt arises, which includes primary responsibility for enforcement of the debt. However, additional enforcement authority also is granted that allows referral of the debt to FTB for collection, and FTB is then given the authority to collect the debt as though it were a tax. The other agencies are responsible for reimbursing FTB for debt collection expenditures.

This constitutional amendment would require the Governor, in preparing the proposed budget for the 1999/2000 fiscal year, to develop a base amount for each state agency that is 10% less than the amount appropriated to each state agency for the 1998/1999 fiscal year. If the expenditures recommended in the proposed budget for any state agency exceed the base amount, the recommended expenditures for other state agencies must be reduced by an equivalent amount so that the aggregate recommended expenditures for all state agencies does not exceed the aggregate base amount. The amendment also would require that the budget bill not appropriate amounts to state agencies in excess of the aggregate base amount. Further, the budget act must include explanations for appropriations to any state agency that exceed the amount recommended in the Governor's proposed budget.

This constitutional amendment would revise the existing requirement that the Legislature shall not send to the Governor any bill appropriating funds (except certain necessary appropriations) until the budget bill has been enacted to read that the Legislature may not send the Governor appropriation bills prior to the enactment of the budget bill.

Policy Considerations

Because the number of taxpayers in California, and thus the number tax returns filed, increase each year, and the department's nontax debt collection activities increase each year, the department's annual budget normally increases to ensure the same quality service is provided. The net effect of this amendment would be greater than a 10% reduction because it also would eliminate the department's normal budgetary growth for the 1999/2000 fiscal year. Additionally, if other state agencies are not able to reimburse FTB for debt collection expenditures, the department's budget effectively would be reduced further.

If an agency with which FTB shares debt collection authority must reduce its collection activities as a result of this constitutional amendment, FTB's responsibilities would increase; however, FTB's budget would decrease.

Implementation Considerations

To the extent that this constitutional amendment would result in a reduction in personnel, the department would need to work with the State Personnel Board to facilitate layoffs.

FISCAL IMPACT

Departmental Costs

This constitutional amendment would result in an estimated budget reduction for the department of approximately $38 million.

Tax Revenue Estimate

This constitutional amendment would result in an estimated revenue loss in the 1999/2000 fiscal year of approximately $170 million.

This estimate was determined in the following method. The 10% budget reduction would result in a reduction of approximately $34 million in the amount that otherwise would have been expended for revenue-producing activities. For each $1 expended on revenue-producing activities, the department generates approximately $5 in state tax revenue. Thus, the revenue loss would be 5 times that of the reduction of revenue-producing activities: $34 million x 5 = $170 million estimated revenue loss.

The amount of losses that also would be experienced in the non-tax debt collection programs administered by the department are not determinable at this time.

BOARD POSITION

Pending.